

Ann M. Menke

Certified Public Accountant
A Professional Corporation

CITY OF NORTH ENGLISH

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2012

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City of North English

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Richard Henson	Mayor	January 1, 2012
Carl Miller	Council Member	January 1, 2012
Wendell Marsh	Council Member	January 1, 2012
Scott Romine	Council Member	January 1, 2014
Jen Rugg	Council Member	January 1, 2012
James Smith	Council Member	January 1, 2014
Kathy S. O'Rourke	City Clerk	Indefinite
Joshua Kraushaar	City Attorney	Indefinite
(After January 2012)		
Richard Henson	Mayor	January 1, 2014
Gerald Kerkove	Council Member	January 1, 2016
Wendell Marsh	Council Member	January 1, 2016
Scott Romine	Council Member	January 1, 2014
Ralph Rowe	Council Member	January 1, 2016
James Smith	Council Member	January 1, 2014
Kathy S. O'Rourke	City Clerk	Indefinite
Joshua Kraushaar	City Attorney	Indefinite

CITY OF NORTH ENGLISH

Ann M. Menke

Certified Public Accountant
A Professional Corporation

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
North English, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of North English's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 01, 2011.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 01, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

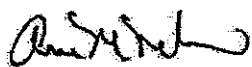
In accordance with Government Auditing Standards, I have also issued my report dated June 26, 2013 on my consideration of the City of North English's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The City of North English, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North English's basic financial statements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North English's basic financial statements. Budgetary comparison information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Sincerely,



Ann M. Menke
Certified Public Accountant
Professional Corporation
June 26, 2013

BASIC FINANCIAL STATEMENTS

City of North English
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2012

		Program Receipts		
		Charges for	Operating Grants	Capital Grants
	Disbursements	Service	Contributions and Restricted Interest	Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 97,513	\$ -	\$ -	\$ -
Public works	143,701	69,406	98,740	-
Health and social services	100	-	-	-
Culture and recreation	73,678	178	22,666	-
Community and economic development	-	-	-	-
General government	64,138	-	-	-
Debt service	30,694	-	-	-
Total governmental activities	409,824	69,584	121,406	-
Business type activities				
Water	257,493	294,315	-	-
Water main	241,795	-	-	-
Sewer	161,323	97,801	-	-
Total business type activities	660,611	392,116	-	-
Total	\$ 1,070,435	\$ 461,700	\$ 121,406	\$ -
General Receipts and Transfers:				
Property tax levied for:				
General purposes				
Local option sales tax				
Cable TV franchise tax				
Utility tax replacement tax				
Bond proceeds				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Unrestricted				
Total cash basis net assets				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (97,513)	\$ -	\$ (97,513)
24,445	-	24,445
(100)	-	(100)
(50,834)	-	(50,834)
-	-	-
(64,138)	-	(64,138)
(30,694)	-	(30,694)
<u>(218,834)</u>	<u>-</u>	<u>(218,834)</u>
-	36,822	36,822
-	(241,795)	(241,795)
-	(63,522)	(63,522)
-	(268,495)	(268,495)
<u>(218,834)</u>	<u>(268,495)</u>	<u>(487,329)</u>
144,674	-	144,674
142,840	-	142,840
2,713	-	2,713
1,904	-	1,904
-	183,531	183,531
8,125	-	8,125
4,170	-	4,170
<u>(50,000)</u>	<u>50,000</u>	<u>-</u>
<u>254,426</u>	<u>233,531</u>	<u>487,957</u>
35,592	(34,964)	628
<u>198,832</u>	<u>101,894</u>	<u>300,726</u>
<u>\$ 234,424</u>	<u>\$ 66,930</u>	<u>\$ 301,354</u>
\$ 55,122	\$ -	\$ 55,122
13,797	8,315	22,112
<u>165,505</u>	<u>58,615</u>	<u>224,120</u>
<u>\$ 234,424</u>	<u>\$ 66,930</u>	<u>\$ 301,354</u>

See notes to financial statements.

City of North English
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and For the Year Ended June 30, 2012

	Special Revenue				
	Local		Debt Service	Total	
	General	Road Use Tax			
			Options Sales Tax		
Receipts:					
Property tax	\$ 144,674	\$ -	\$ -	\$ -	\$ 144,674
Other city taxes	4,618	-	142,840	-	147,458
Licenses and permits	150	-	-	-	150
Use of money and property	8,125	-	-	-	8,125
Intergovernmental	24,329	98,740	-	-	123,069
Charges for services	69,256	-	-	-	69,256
Miscellaneous	2,684	-	-	-	2,684
Total receipts	<u>253,836</u>	<u>98,740</u>	<u>142,840</u>	<u>-</u>	<u>495,416</u>
Disbursements:					
Operating:					
Public safety	97,513	-	-	-	97,513
Public works	63,243	80,458	-	-	143,701
Health and social services	100	-	-	-	100
Culture and recreation	73,678	-	-	-	73,678
General government	64,138	-	-	-	64,138
Debt service	0	-	-	30,694	30,694
Total disbursements	<u>298,672</u>	<u>80,458</u>	<u>-</u>	<u>30,694</u>	<u>409,824</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(44,836)	18,282	142,840	(30,694)	85,592
Other financing sources (uses)					
Operating transfers in	100,000	35,000	-	30,694	165,694
Operating transfers out	(11,253)	(19,441)	(185,000)	-	(215,694)
Total other financing sources	<u>88,747</u>	<u>15,559</u>	<u>(185,000)</u>	<u>30,694</u>	<u>(50,000)</u>
Net change in cash balances	43,911	33,841	(42,160)	0	35,592
Cash balances beginning of year	(2,745)	21,281	180,296	0	198,832
Cash balances end of year	<u>\$ 41,166</u>	<u>\$ 55,122</u>	<u>\$ 138,136</u>	<u>\$ -</u>	<u>\$ 234,424</u>
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	\$ 55,122	\$ -	\$ -	\$ 55,122
Debt service	-	-	-	13,797	13,797
Unassigned	41,166	-	138,136	(13,797)	165,505
Total cash basis fund balances	<u>\$ 41,166</u>	<u>\$ 55,122</u>	<u>\$ 138,136</u>	<u>\$ -</u>	<u>\$ 234,424</u>

See notes to financial statements.

City of North English
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and For the Year Ended June 30, 2012

	<u>Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Water Main</u>	<u>Total</u>
Operating receipts:				
Charges for services	\$ 294,315	\$ 97,801	\$ -	\$ 392,116
Total receipts	<u>294,315</u>	<u>97,801</u>	<u>-</u>	<u>392,116</u>
Operating disbursements:				
Business type activities	<u>209,800</u>	<u>161,323</u>		<u>371,123</u>
Total operating disbursements	<u>209,800</u>	<u>161,323</u>	<u>-</u>	<u>371,123</u>
Excess (deficiency) of operating receipts (under) over operating disbursements	84,515	(63,522)	-	20,993
Other financing sources (uses)				
Bond proceeds	-	-	183,531	183,531
Debt service	(47,693)	-	(54,010)	(101,703)
Capital projects	-	-	(187,785)	(187,785)
Operating transfers in	-	50,000	48,429	98,429
Operating transfers out	<u>(48,429)</u>	<u>-</u>	<u>-</u>	<u>(48,429)</u>
Net non-operating receipts (disbursements)	<u>(96,122)</u>	<u>50,000</u>	<u>(9,835)</u>	<u>(55,957)</u>
Net change in cash balances	(11,607)	(13,522)	(9,835)	(34,964)
Cash balances beginning of year	<u>41,777</u>	<u>60,117</u>	<u>-</u>	<u>101,894</u>
Cash balances end of year	<u>\$ 30,170</u>	<u>\$ 46,595</u>	<u>\$ (9,835)</u>	<u>\$ 66,930</u>
Cash Basis Fund Balances				
Restricted for debt service	\$ 8,315	\$ -	\$ -	\$ 8,315
Unreserved	<u>21,855</u>	<u>46,595</u>	<u>(9,835)</u>	<u>58,615</u>
Total cash basis fund balances	<u>\$ 30,170</u>	<u>\$ 46,595</u>	<u>\$ (9,835)</u>	<u>\$ 66,930</u>

See notes to financial statements.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North English is a political subdivision of the State of Iowa located in Iowa and Keokuk Counties. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of North English has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific burdens on the City. The City of North English has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: English Valley Community Park, North English Co-op Telephone Board, Keokuk County Joint E911 Service Board, and North English Benefit Fire District.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

**City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Options Sales Tax Fund is used to account for the proceeds of local option sales tax.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Water Main Fund accounts for the construction and improvements to the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of North English maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2012.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 23,498	\$ 5,983	\$ 72,000	\$ 27,780	\$ 95,498	\$ 33,763
2014	5,000	4,888	74,000	25,620	79,000	30,508
2015	10,000	4,730	77,000	23,400	87,000	28,130
2016	10,000	4,500	80,000	21,090	90,000	25,590
2017	10,000	4,140	82,000	18,690	92,000	22,830
2018-2022	50,000	13,988	301,000	59,430	351,000	73,418
2023-2027	30,000	2,888	237,000	21,510	267,000	24,398
2028	0	0	3,000	90	3,000	90
Total	<u>\$ 138,498</u>	<u>\$ 41,116</u>	<u>\$ 926,000</u>	<u>\$ 197,610</u>	<u>\$1,064,498</u>	<u>\$ 238,726</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$926,000 of water revenue bonds issued in 2003, 2009, and 2010. Proceeds from the bonds provided financing for the construction of a water tower, water meter replacements, and water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 90% of net receipts. The total principal and interest remaining to be paid on the notes is \$1,123,610. For the current year, principal and interest paid and total customer net receipts were \$98,727 and \$84,515, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Water user rates shall be established at a level which produces net revenues at a level not less than 110% of the amount of principal and interest due on the bonds during the same year.

The City has not complied with the water revenue bond provisions which states that separate sinking accounts will be created within the water fund. Also, the current year net water revenues were less than the principal and interest due on the revenue bonds.

**City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012**

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$19,056, equal to the required contribution for the year.

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are four active members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$747 for single coverage and \$1,857 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$73,880 and plan members eligible for benefits contributed \$0 to the plan.

City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012

NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$1,609
Sick leave	<u>3,353</u>
Total	<u>\$4,962</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

NOTE 7 – RISK MANAGEMENT

The City of North English is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Local Options Sales Tax	\$ 100,000
Road Use Tax	Local Options Sales Tax	35,000
Water Main	Water	48,429
Sewer	Local Options Sales Tax	50,000
Debt Service	General	11,252
Debt Service	Road Use Tax	<u>19,441</u>
Total		<u>\$ 264,122</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**City of North English
Notes to Financial Statements
For the Year Ended June 30, 2012**

NOTE 9 – SERVICE AGREEMENTS

The City of North English has an agreement with Iowa County to provide police protection for its citizens. The City paid \$91,074 under this agreement during the year ended June 30, 2012.

NOTE 10 – DEFICIT BALANCE

The Water Main Fund had a deficit fund balance of \$9,835 at June 30, 2012. The deficit balance was a result of project costs in excess of funds. The deficit will be eliminated with a fund transfer in the future.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2013, the date which the financial statements were available for issue.

OTHER INFORMATION

City of North English
Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts			
Property tax	\$ 144,674	\$ -	\$ 144,674
Other city taxes	147,458	-	147,458
Licenses and permits	150	-	150
Use of money and property	8,125	-	8,125
Intergovernmental	123,069	-	123,069
Charges for services	69,256	392,116	461,372
Miscellaneous	2,684	-	2,684
Total receipts	<u>495,416</u>	<u>392,116</u>	<u>887,532</u>
Disbursements			
Public safety	97,513	-	97,513
Public works	143,701	-	143,701
Health and social services	100	-	100
Culture and recreation	73,678	-	73,678
Community and economic development	-	-	-
General government	64,138	-	64,138
Debt service	30,694	-	30,694
Capital projects	-	-	-
Business type activities	-	660,611	660,611
Total disbursements	<u>409,824</u>	<u>660,611</u>	<u>1,070,435</u>
Excess of receipts over disbursements	85,592	(268,495)	(182,903)
Other financing sources, net	<u>(50,000)</u>	<u>233,531</u>	<u>183,531</u>
Excess of receipts and other financing sources over disbursements and other financing uses	35,592	(34,964)	628
Balances, beginning of year	<u>198,832</u>	<u>101,894</u>	<u>300,726</u>
Balances, end of year	<u>\$ 234,424</u>	<u>\$ 66,930</u>	<u>\$ 301,354</u>

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 142,675	\$ 142,675	\$ 1,999
103,779	133,779	13,679
640	640	(490)
3,000	3,000	5,125
115,477	115,477	7,592
471,470	471,470	(10,098)
3,000	3,000	(316)
<u>840,041</u>	<u>870,041</u>	<u>17,491</u>
115,152	115,152	17,639
175,965	175,965	32,264
500	500	400
67,175	70,175	(3,503)
500	500	500
86,225	86,225	22,087
-	-	(30,694)
-	195,000	195,000
369,615	501,115	(159,496)
<u>815,132</u>	<u>1,144,632</u>	<u>74,197</u>
24,909	(274,591)	91,688
-	195,000	(11,469)
24,909	(79,591)	80,219
<u>296,341</u>	<u>296,341</u>	<u>4,385</u>
<u>\$ 321,250</u>	<u>\$ 216,750</u>	<u>\$ 84,604</u>

See accompanying independent auditor's report.

City of North English
Notes to Other Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$329,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

SUPPLEMENTARY INFORMATION

City of North English
Schedule of Indebtedness
For the Year Ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
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General Obligation Notes:

Fire Truck	August 1, 2005	4.- 4.875%	155,000
Street Sweeper	October 10, 2007	5.099%	83,939

Revenue Bonds:

Water Tower	June 17, 2003	3.00%	562,000
Water Meters	January 27, 2010	3.00%	82,000
Water Main	September 23, 2009	3.00%	792,000

Total

Schedule 1

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 125,000	\$ -	\$ 5,000	\$ 120,000	\$ 5,753
36,369	-	17,871	18,498	1,570
329,000	-	37,000	292,000	9,870
69,000		3,000	66,000	2,036
<u>414,469</u>	<u>183,531</u>	<u>30,000</u>	<u>568,000</u>	<u>16,821</u>
<u>\$ 973,838</u>	<u>\$ 183,531</u>	<u>\$ 92,871</u>	<u>\$ 1,064,498</u>	<u>\$ 36,050</u>

See accompanying independent auditor's report.

City of North English
Bond and Note Maturities
For the Year Ended June 30, 2012

General Obligation Notes

Year Ending June 30,	Fire Truck		Street Sweeper		Total
	Issued Aug 1, 2005		Issued Oct 10, 2007		
	Interest Rates	Amount	Interest Rates	Amount	
2013	4.20%	\$ 5,000	5.099%	\$ 18,498	\$ 23,498
2014	4.25%	5,000	-	-	5,000
2015	4.30%	10,000	-	-	10,000
2016	4.50%	10,000	-	-	10,000
2017	4.60%	10,000	-	-	10,000
2018	4.625%	10,000	-	-	10,000
2019	4.625%	10,000	-	-	10,000
2020	4.625%	10,000	-	-	10,000
2021	4.75%	10,000	-	-	10,000
2022	4.750%	10,000	-	-	10,000
2023	4.800%	10,000	-	-	10,000
2024	4.800%	10,000	-	-	10,000
2025	4.875%	10,000	-	-	10,000
Total		\$ 120,000		\$ 18,498	138,498

Revenue Bonds

Year Ending June 30,	Water Tower		Water Meters		Water Main		Total
	Issued Jun 17, 2003		Issued Jan 27, 2010		Issued Sep 23, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	3.00%	\$ 38,000	3.00%	\$ 3,000	3.00%	\$ 31,000	\$ 72,000
2014	3.00%	39,000	3.00%	3,000	3.00%	32,000	74,000
2015	3.00%	40,000	3.00%	4,000	3.00%	33,000	77,000
2016	3.00%	42,000	3.00%	4,000	3.00%	34,000	80,000
2017	3.00%	43,000	3.00%	4,000	3.00%	35,000	82,000
2018	3.00%	44,000	3.00%	4,000	3.00%	36,000	84,000
2019	3.00%	46,000	3.00%	4,000	3.00%	37,000	87,000
2020		-	3.00%	4,000	3.00%	38,000	42,000
2021		-	3.00%	4,000	3.00%	39,000	43,000
2022		-	3.00%	4,000	3.00%	41,000	45,000
2023		-	3.00%	5,000	3.00%	42,000	47,000
2024		-	3.00%	5,000	3.00%	43,000	48,000
2025		-	3.00%	5,000	3.00%	45,000	50,000
2026		-	3.00%	5,000	3.00%	46,000	51,000
2027		-	3.00%	5,000	3.00%	36,000	41,000
2028		-	3.00%	3,000		-	3,000
Total		\$ 292,000		\$ 66,000		\$ 568,000	\$926,000

See accompanying independent auditor's report.

Ann M. Menke

Certified Public Accountant
A Professional Corporation

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
North English, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated June 26, 2013. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 01, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of North English is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of North English's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of North English's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of North English's internal control over financial reporting.

My consideration of internal controls over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of

the City of North English's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings as items A through C to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings as item D to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of North English's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of North English's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of North English's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of North English and other parties to whom the City of North English may report including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of North English during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,



Ann M. Menke
Certified Public Accountant
June 26, 2013

**City of North English
Schedule of Findings
For the Year Ended June 30, 2012**

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably assure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Receipts – collecting, depositing, journalizing, reconciling, and posting.
5. Utility receipts – billing, collecting, depositing, and posting.
6. Disbursements – check writing, reconciling, and posting.
7. Payroll – preparation, distribution, and posting.
8. Transfers – recording and reconciling
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response – We will consider this.

Conclusion – Response accepted.

(B) City Policies and Procedures – The City does not have an accounting policies and procedures manual, a written credit card policy, or a policy on the personal use of city computers. It was noted that credit card bills did not have the receipts or invoices attached to the credit card statement also.

Recommendation – A credit card policy, computer usage policy, and an accounting policies and procedures manual should be developed to provide the following benefits:

1. Aid in training additional or replacement personnel
2. Help achieve uniformity in accounting and in the application of policies and procedures.
3. Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2012**

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES: (Continued)

Response – A written accounting policies and procedures manual is in the process of being developed for our new accounting system. We will consider developing a computer usage policy and credit card policy.

Conclusion – Response accepted.

(C) Employee Policies and Procedures – The City's employee policies were adopted in 1993. The policy does not address cell phone reimbursements or uniform allowances which are currently being paid to city employees. In addition, the policy states that the city clerk shall track benefits for all city employees. Currently each employee tracks their own vacation, sick, and comp time. I noted that one city employee was paid approximately 38 hours vacation that was not deducted from the available hours. Also, the policy states that city employees shall receive their water bills free of charge.

Recommendation – The City should update its employee policies to include cell phone reimbursements and uniform allowances if the City plans to continue paying for those items. Employee vacation, sick, and comp time hours should be tracked by the clerk and periodically reviewed by the mayor or council. Evidence of the review should be documented with a signature and date of the reviewer. In addition, the City should consider changing the policy of paying employee water bills as a matter of good business practice.

Response – We will consider this.

Conclusion – Response accepted.

(D) Signature Authority – The City's bank account requires only one signature on checks. In addition, the City Clerk signs her own paycheck.

Recommendation – The City should require dual signatures on all checks for protection of the City and City Clerk. To strengthen internal control, checks should be signed by one person and then supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature. Also, the City Clerk should avoid signing her own paycheck or at least have another authorized signer countersign the check in addition to the clerk's signature.

Response – We will consider this.

Conclusion – Response accepted.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2012**

Other Findings Related to Statutory Reporting:

1. Certified Budget – Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

2. Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

4. Business Transactions – No business transactions between the City and City officials or employees were noted.

5. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

6. City Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The published minutes did not include a summary of receipts and disbursements by fund in all cases.

Recommendation – The city should publish minutes as required by the Code of Iowa.

Response – We will publish minutes as required.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2012**

Other Findings Related to Statutory Reporting:

Conclusion – Response accepted.

7. Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted. However, the City's investment policy language is outdated and does not comply with Chapter 12B of the Code of Iowa.

Recommendation – The city update its investment policy to comply with Chapter 12B of the Code of Iowa.

Response – We will update our investment policy.

Conclusion – Response accepted.

8. Revenue Bonds and Notes – The City is not in compliance with all of the requirements of the revenue bond and note resolutions. The water revenue bonds require that a sinking fund be setup and that sufficient monthly transfers shall be made to separate water revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due. Also, water user rates shall be established at a level which produces net revenues at a level not less than 110% of the amount of principal and interest due on the bonds during the same year.

Recommendation – The City should establish the sinking fund and make the appropriate transfers to the sinking fund. The City should also ensure that water revenues are sufficient to produce net revenues of at least 110% of the amount of principal and interest due on the bonds each year.

Response – We have made a number of improvements to the water main system which was experiencing a large amount of water loss. This problem has since been corrected. We will review our water fund revenues and expenditures to ensure we are compliant in the future.

Conclusion – Response accepted.

9. Payment of General Obligation Bonds – The City paid general obligation debt from the General Fund and Road Use Tax Funds. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund." Corrective transfers were made to correct this for reporting purposes.

Recommendation – The City should transfer from the General Fund and Road Use Tax Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

**City of North English
Schedule of Findings
For the Year Ended June 30, 2012**

Other Findings Related to Statutory Reporting:

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

10. Financial Condition – The Enterprise, Water Main Fund had a deficit fund balance of \$9,835 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will investigate alternatives to eliminate this deficit.

Conclusion – Response accepted.

City of North English

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Kelly Nelton, CPA

Kristy Adams, Staff Auditor

Toni Ramsey, Staff Auditor